

## Message Text

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ACTION ARA-10

INFO OCT-01 SS-14 ISO-00 NSC-05 INR-05 CIAE-00 NSAE-00  
PM-03 MCE-00 OMB-01 TRSE-00 L-01 EB-04 EUR-08  
/052 W  
-----104833 031748Z /43

R 031430Z MAR 78  
FM AMEMBASSY QUITO  
TO SECSTATE WASHDC 7492  
INFO AMEMBASSY BONN  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TEL AVIV  
USCINCSO QUARRY HEIGHTS CZ  
SECDEF WASHDC  
DIA WASHDC

C O N F I D E N T I A L SECTION 1 OF 2 QUITO 1342

LIMDIS

E.O. 11652: GDS  
TAGS: MPOL, PCAT, EC  
SUBJECT: REPORTS OF BRIBE OFFERS TO PROMOTE SALE OF ANTI-  
AIRCRAFT MISSILES TO ECUADOR

REF: ARA/AND (ALITTO) LETTER TO CHARGE CORR, DATED  
FEBRUARY 14, 1978 (NOTAL).

1. SUMMARY: ALTHOUGH EMBASSY HAS NO DOCUMENTARY EVIDENCE,  
IT HAS GOOD REASON TO BELIEVE THAT "BRIBES" HAVE BEEN OFFERED  
TO GOE OFFICIALS IN EFFORT TO SELL ANTI-AIRCRAFT MISSILE  
SYSTEM. PAYMENT OF LARGE "COMMISSIONS" IS COMMON PRACTICE  
IN DEFENSE EQUIPMENT (AND SOME COMMERCIAL) SALES IN ECUADOR,  
ALTHOUGH THEY USUALLY OCCUR AFTER THE SALE. OTHER RECENT  
TRANSACTIONS ON WHICH THE EMBASSY HAS REASON TO BELIEVE  
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PAYMENTS HAVE BEEN MADE INDICATE THAT ALL ARMS SUPPLIERS  
FROM OUTSIDE THE U.S. ENGAGE IN THIS PRACTICE IN  
ECUADOR. NONETHELESS, ECUADOR GENERALLY ACQUIRES ADEQUATE  
EQUIPMENT AND AT TIMES BASES ITS PURCHASE DECISIONS SOLELY  
ON PRICE AND PERFORMANCE CHARACTERISTICS. THE CON-  
TINUING PROBLEM OF ILLICIT PAYMENTS BY THIRD COUNTRY  
ARMS SUPPLIERS IS A CONSIDERATION WHICH THE EMBASSY BELIEVES

SHOULD BE WEIGHED IN FORMULATING US ARMS TRANSFER POLICY.  
END SUMMARY.

2. REF LETTER TRANSMITTED REPORT FROM A FORD AEROSPACE  
6 COMMUNICATIONS CORP. REPRESENTATIVE THAT UNNAMED BRITISH  
BUSINESS REPRESENTATIVES HAVE OFFERED TO BRIBE HIGH  
ECUADOREAN AIR FORCE OFFICERS AS PART OF EFFORT TO OBTAIN  
CONTRACT FOR SALE TO ECUADOR OF S-A-M AIRCRAFT MISSILE SYSTEM.

3. EMBASSY HAS NO DOCUMENTARY EVIDENCE AT THIS TIME THAT  
BRIBES HAVE BEEN OFFERED IN CONNECTION WITH EFFORTS TO  
SELL ANTI-AIRCRAFT MISSILES IN ECUADOR. GIVEN THE NATURE  
OF SUCH PAYMENTS HERE, E.G., AS COMMISSIONS AFTER CONSUM-  
MATION OF SALE (SEE PARA. 4), IT IS UNLIKELY THAT DOCUMENTARY  
EVIDENCE ON THIS SPECIFIC ALLEGATION NOW EXISTS. NONETHELESS,  
THE EMBASSY HAS SUFFICIENT CREDIBLE INFORMATION TO MAKE  
US REASONABLY CERTAIN THAT PAYMENTS HAVE BEEN OFFERED NOT  
ONLY BY THE BRITISH, BUT ALSO, THE FRENCH, WEST GERMAN  
AND ITALIAN COMPETITORS. THE BRITISH REPS CITED IN REF  
ARE PROBABLY FROM SHORT BROS., WHICH HAS BEEN TRYING  
TO SELL THE BLOWPIPE AND OBSOLETE BLOODHOUND MISSILES  
SINCE THE FIRST BRITISH COMPETITOR, THE RAPIER, WAS  
DISMISSED AS TOO EXPENSIVE BY THE GOE.  
THAT INFORMATION CONSISTS PRIMARILY OF STATEMENTS BY SOURCES  
IN POSITION TO KNOW, SUCH AS MILITARY OFFICERS (INCLUDING  
THE THIRD RANKING OFFICER IN THE MILITARY), BUSINESSMENT  
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CONNECTED TO THE DEFENSE ESTABLISHMENT, AND U.S.TW  
NOMPANIES SELLING ASSOCIATED EQUIPMENT. OUR BELIEF  
IS ALSO BASED TO SOME EXTENT ON OUR EXPERIENCE WITH  
SIMILAR TRANSACTIONS IN THE PAST WHERE WE HAVE HARD, BUT  
AGAIN NOT DOCUMENTARY, EVIDENCE THAT SUCH PAYMENTS  
WERE MADE. SHOULD FURTHER, HARD EVIDENCE ON THESE  
ALLEGATIONS COME TO LIGHT, THE EMBASSY WILL TRANSMIT  
THEM ASAP.

4. THE EMBASSY WOULD NOTE, HOWEVER, THAT THE WORD "BRIBE"  
MUST BE USED VERY CAREFULLY IN THIS CONTEXT. TO OUR KNOW-  
LEDGE THERE ARE NO PAYMENTS IN ADVANCE OF PERFORMANCE IN  
ECUADOR. PAYMENT TAKES THE FORM OF A PERCENTAGE OF TOTAL  
CONTRACT OR UNIT PRICE AND IS PAID ONLY AFTER A CONTRACT  
HAS BEEN SIGNED. THESE PAYMENTS, THEREFORE, CONSTITUTE  
QUASI-"COMMISSIONS". THIS SYSTEM OF DOING BUSINESS CONTI-  
NUES TO BE COMMON IN ECUADOR, AND NOT ONLY IN THE AREA OF  
DEFENSE CONTRACTS. WE PRESUME THE SAME IS TRUE OF MOST OF  
THE THIRD WORLD. THE STRONG, GENERALLY SUCCESSFUL, EFFORT  
BY THE USG TO PREVENT SUCH PAYMENTS BY US BUSINESSES HAS  
HAD LITTLE OR NO EFFECT ON OTHER ARMS SUPPLIER COMPANIES OR  
COUNTRIES.

5. THE MISSILE SALE, PARTICULARLY WHEN COMBINED WITH AN AIR TRAFFIC CONTROL/AIR DEFENSE RADAR SYSTEM, IS A LARGE CONTRACT (\$250-400 MILLION) AND HAS PRODUCED SPIRITED COMPETITION. OTHER RECENT EXAMPLES OF REPORTED COMMISSIONS ABOUND, WHICH GIVES A BETTER IDEA OF THE DIMENSIONS OF THE PROBLEM. FOR INSTANCE, THE SALE OF 18 MIRAGE AIRCRAFT BY FRANCE IN 1977 REPORTEDLY INCLUDED PAYMENT OF \$800,000 PER AIRCRAFT IN "COMMISSIONS". AND, WE UNDERSTAND, THE ORIGINAL CONTRACT PRICE FOR THE ISRAELI KFIR FIGHTER, THE SALE OF WHICH WAS VETOED BY THE USG, ALSO INCLUDED A HEFTY COMMISSION. ALTHOUGH THE AIR FORCE HAS FIGURED

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C O N F I D E N T I A L SECTION 2 OF 2 QUITO 1342

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MOST PROMINENTLY IN THESE REPORTS, LARGELY BECAUSE MAJOR WEAPON SYSTEM PURCHASES RECENTLY HAVE BEEN AIR FORCE PURCHASES, OTHER SERVICES ALSO HAVE RECEIVED THESE PAYMENTS. IN 1977 A BRITISH FIRM, RECAL, SOLD THE ARMY TACTICAL COMMUNICATIONS EQUIPMENT FOR \$16 MILLION, TWENTY-FIVE PER CENT OF WHICH REPORTEDLY CONSTITUTED AN ILLICIT PAYMENT.

5. COMMENT: THE COMPLAINT BY THE FORD AEROSPACE REP IS NOT SURPRISING. US DEFENSE EQUIPMENT SUPPLIERS, MOST

NOTABLY RAYTHEON, WHICH IS BIDDING FOR THE AIR TRAFFIC CONTROL RADAR SYSTEM, HAVE COMPLAINED BITTERLY TO EMBOFFS ABOUT THE FORMIDABLE OBSTACLES THEY FACE IN MAKING SALES BECAUSE THEY CANNOT MAKE THIS KIND OF PAYMENT. AT THE SAME TIME, IT IS DIFFICULT TO ESTIMATE THE INFLUENCE THESE COMMISSIONS HAVE IN DETERMINING THE GOE'S ACTUAL PUR-  
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CHASE DECISION. THERE ARE NO CASES WE CAN POINT TO WHERE DEMONSTRABLY INFERIOR EQUIPMENT WAS PURCHASED FOR NO APPARENT REASON OTHER THAN PAYOFFS. IN ALL CASES NOTED ABOVE, THE ULTIMATELY BOUGHT EQUIPMENT THAT IS ADEQUATE (ALBEIT SOMEWHAT INAPPROPRIATE, AS IN THE EXAMPLE OF CHOOSING THE SOPHISTICATED BRITISH JAGUAR OVER THE F-5 IN 1975). THE APPARENT DECISION BY THE GOE TO PURCHASE THE CHAPPARAL/VULCAN IS A GOOD EXAMPLE OF THIS: MMXTHEY ARE BUYING IT ON PRICE AND PERFORMANCE CONSIDERATIONS IN SPITE OF THE LACK OF COMMISSION ON THE SALE. THIS, OF COURSE, COULD BE A POINT IN FAVOR OF A MORE FORTHCOMING US ARMS TRANSFER POLICY. OUR DECISION NOT SELL A GIVEN ITEM OR KIND OF EQUIPMENT AT TIMES NOT ONLY INFLUENCES PURCHASERS TO TURN TO MORE EXPENSIVE OR SOPHISTICATED ALTERNATIVES, BUT ALSO EXPOSES THEM TO THE TEMPTATIONS OF PAYOFFS ON INTERNATIONAL ARMS TRANSACTIONS.  
KEMP

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## Message Attributes

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**Current Classification:** UNCLASSIFIED  
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**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 03 mar 1978  
**Decaption Date:** 20 Mar 2014  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
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**Disposition Date:** 20 Mar 2014  
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**Status:** NATIVE  
**Subject:** REPORTS OF BRIBE OFFERS TO PROMOTE SALE OF ANTI- AIRCRAFT MISSILES TO ECUADOR  
**TAGS:** MPOL, PCAT, MASS, EC  
**To:** STATE  
**Type:** TE  
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**Review Markings:**  
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